

MEMORANDUM

To: Vermont Electric Utilities, Renewable Energy Providers and Other Interested Persons

From: Judith C. Whitney, Deputy Clerk of the Board

Re: Notice of Workshop re the Establishment of a Process to Allocate Vermont's Budget of Carbon Credits, and Appointment of Consumer Trustee or Trustees pursuant to 30 V.S.A. § 255.

Date: October 17, 2007

30 V.S.A. Section 255 directs the Vermont Public Service Board ("Board") to "establish a process to allocate" the carbon credits that Vermont receives as part of its participation in the Regional Greenhouse Gas Initiative ("RGGI").¹ The Board is also authorized to appoint a Trustee or Trustees to "receive, hold, bank, and sell tradable carbon credits created under this program."²

The Board has appointed David Farnsworth as Hearing Officer to conduct a workshop or series of workshops to discuss the activities contemplated in 30 V.S.A. Section 255, with the purpose of seeking guidance and recommendations on how to implement these activities. The first workshop will be held on Thursday, November 8, 2007, from 9:30 A.M. - 12:00 Noon, at the Public Service Board Hearing Room, located on the third floor of the Chittenden Bank Building at 112 State Street, Montpelier, Vermont. In order to facilitate future discussions among workshop participants, the workshop will be recorded by a court reporter.

The Board would like to know how many people are likely to attend the workshop. Therefore, it asks that persons planning on attending e-mail the Clerk of the Board at psb.clerk@state.vt.us.

The Board is interested in oral or written comments from all interested persons regarding these issues. Parties may file written comments prior to the workshop or bring written comments, if they wish, to the workshop. Electronic copies of comments can be posted by the Board on its website.

¹30 V.S.A. § 255(c)(2). The complete statute is attached.

²*Id.* at (d).

30 V.S.A. § 255. Regional coordination to reduce greenhouse gases

TITLE 30

Public Service

PART I

Department of Public Service

CHAPTER 5. POWERS AND DUTIES OF DEPARTMENT OF PUBLIC SERVICE
AND PUBLIC SERVICE BOARD AS TO COMPANIES OTHER THAN RAILROADS
AND AIRCRAFT

Subchapter I. General Powers

§ 255. Regional coordination to reduce greenhouse gases

(a) Legislative findings. The general assembly finds:

(1) There is a growing scientific consensus that the increased anthropogenic emissions of greenhouse gases are enhancing the natural greenhouse effect, resulting in changes in the earth's climate.

(2) Climate change poses serious potential risks to human health and terrestrial and aquatic ecosystems globally, regionally, and in Vermont.

(3) A carbon constraint on fossil fuel-fired electricity generation and the development of a CO₂ allowance trading mechanism will create a strong incentive for the creation and deployment of more efficient fuel-burning technologies, renewable resources, and end-use efficiency resources and will lead to lower dependence on imported fossil fuels.

(4) Absent federal action, a number of states are taking actions to work regionally to reduce power sector carbon emissions.

(5) Vermont has joined with at least six other states to design the Regional Greenhouse Gas Initiative (RGGI), and, in 2005, Vermont's governor signed a memorandum of understanding (MOU) signaling Vermont's intention to develop rules and programs to participate in RGGI.

(6) It is crucial to manage Vermont's implementation of RGGI so as to maximize the state's contribution to lowering carbon emissions while minimizing impacts on electric system reliability and unnecessary costs to Vermont power consumers.

(7) The accelerated deployment of low-cost energy efficiency and the strategic use of low- and zero-carbon generation are the best means to achieve these goals.

(8) It is crucial that funds made available from operation of a regional carbon credits cap and trade system be devoted to the benefit of Vermont power consumers through investments in a strategic portfolio of energy efficiency and low-carbon generation resources.

(b) Cap and trade program creation.

(1) The agency of natural resources and the public service board shall, through appropriate rules and orders, establish a carbon cap and trade program that will limit and then reduce the total carbon emissions released by major electric generating stations that provide electric power to Vermont utilities and end-use customers.

(2) Vermont rules and orders establishing a carbon cap and trade program shall be designed so as to permit the holders of carbon credits to trade them in a regional market proposed to be established through the RGGI.

(c) Allocation of tradable carbon credits.

(1) The secretary of natural resources, by rule, shall establish a set of annual carbon budgets for emissions associated with the electric power sector in Vermont consistent with the 2005 RGGI MOU, including any amendments to that MOU, and on a reciprocal basis with the other states participating in the RGGI process.

(2) In order to provide the maximum long-term benefit to Vermont electric consumers, particularly benefits that will result from accelerated and sustained investments in energy efficiency and other low-cost, low-carbon power system investments, the public service board, by rule or order, shall establish a process to allocate 100 percent of the Vermont statewide budget of tradable power sector carbon credits and the proceeds from the sale of those credits through allocation to one or more trustees acting on behalf of consumers in accordance with the following principles. To the extent feasible, the allocation plan shall accomplish the following goals:

(A) minimize windfall financial gains to power generators as a result of the operation of the cap and trade program, considering both the costs that generators may incur to participate in the program and any power revenue increases they are likely to receive as a result of changes in regional power markets;

(B) employ an administrative structure that will enable program managers to perform any combination of holding, banking, and selling carbon credits in regional, national, and international carbon credit markets in a financially responsible and market-sensitive fashion, and provide funds to defray the reasonable costs of the program trustee or trustees and Vermont's pro-rata share of the costs of the RGGI regional organization;

(C) optimize the revenues received from the management and sale of carbon credits for the benefit of Vermont electric customers and the Vermont economy;

(D) minimize any incentives from operation of the cap and trade program for Vermont utilities to increase the overall carbon emissions associated with serving their customers;

(E) build upon existing regulatory and administrative structures and programs that lower power costs, improve efficiency, and lower the carbon profile of the state's power supply

while minimizing adverse impacts on electric system reliability and unnecessary costs to Vermont power consumers;

(F) ensure that carbon credits allocated under this program and revenues associated with their sale remain power system assets managed for the benefit of electric consumers, particularly benefits that will result from accelerated and sustained investments in energy efficiency and other low-cost, low-carbon power system investments;

(G) where practicable, support efforts recommended by the agency of natural resources or the department of public service to stimulate or support investment in the development of innovative power sector carbon emissions abatement technologies that have significant carbon reduction potential.

(d) Appointment of consumer trustees. The public service board, by rule, order, or competitive solicitation, may appoint one or more consumer trustees to receive, hold, bank, and sell tradable carbon credits created under this program. Trustees may include Vermont electric distribution utilities, the fiscal agent collecting and disbursing funds to support the statewide efficiency utility, or a financial institution or other entity with the expertise and financial resources to manage a portfolio of carbon credits for the long-term benefit of Vermont consumers.

(e) Reports. By January 15 of each year, commencing in 2007, the department of public service in consultation with the agency of natural resources and the public service board shall provide to the house and senate committees on natural resources and energy, the senate committee on finance, and the house committee on commerce a report detailing the implementation and operation of RGGI and the revenues collected and the expenditures made under this section, together with recommended principles to be followed in the allocation of funds. (Added 2005, No. 123 (Adj. Sess.), § 1.)